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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 6, 2002

APPLICATION OF

SALTVILLE GAS STORAGE
COMPANY, L.L.C.

CASE NO. PUE-2001-00585

For a certificate of public
convenience and necessity under
the Utility Facilities Act

ORDER GRANTING CERTIFICATE

On October 26, 2001, Saltville Gas Storage Company, L.L.C. ("Saltville," "LLC," or the "Company"), filed an application with the State Corporation Commission ("Commission") requesting the Commission to issue a certificate of public convenience and necessity under the Utility Facilities Act, Chapter 10.1 (§ 56-265.1, et seq.) of Title 56 ("Utility Facilities Act") of the Code of Virginia ("Code"), authorizing Saltville to construct, develop, own, operate, and maintain an underground natural gas storage facility, along with related facilities, at Saltville, Virginia (the "Storage Facility"), and to grant all approvals required under the Utility Facilities Act and any regulations or guidelines issued thereunder. In its application, the Company proposed to construct, develop, own, operate, and maintain an attendant pipeline facility, approximately seven miles in

length, originating at the proposed Storage Facility and terminating in Chilhowie, Virginia, along with certain related facilities. The Company also proposed to provide firm storage services and an interruptible storage service consisting of normal interruptible storage, peak and loan services, and a negotiated service available primarily for a shorter term interruptible service. According to Saltville, its underground natural gas storage facility will be connected with Virginia Gas Pipeline Company's ("VGPC") existing P-25 intrastate pipeline system, and East Tennessee Natural Gas Company's ("ETNG") interstate pipeline system.

On November 16, 2001, VGPC filed a motion to participate as a party in this proceeding. In its motion, VGPC agreed that it would reduce the site certificated to VGPC to reflect the scope of its operations at VGPC's Saltville Gas Storage Facility, consistent with the Commission's approval of Saltville's application. VGPC's motion indicated that it wished to reduce the site certificated to VGPC only if Saltville is granted a final certificate to develop, construct, own, operate, and maintain the natural gas Storage Facility that was the subject of the application. VGPC maintained that if Saltville's application is approved, the reduced facility site certificated to VGPC would be contiguous with the proposed facility site certificated to Saltville. VGPC noted that it planned to file a

joint application to transfer certain assets it owns to the Company and to file revised tariff and cost of service sheets to reflect, among other things, the transfer of certain assets. VGPC reiterated that it has no desire to reduce the site certificated to VGPC unless the Commission acted favorably on Saltville's application.

In its December 3, 2001, procedural Order, the Commission docketed the proceeding, granted VGPC's motion to participate as a party to this proceeding, scheduled the matter for hearing on February 20, 2002, before a Hearing Examiner, and established a procedural schedule for the filing of comments and testimony by Saltville, respondents, public witnesses, and Staff.

On the appointed hearing date, the matter came before the Hearing Examiner assigned to this matter. Counsel appearing were JoAnne L. Nolte, Esquire, Danielle L. Smith, Esquire, and Mary Patricia Keefe, Esquire, counsel for Saltville and VGPC; Edward L. Petrini, Esquire, counsel for Public Service Company of North Carolina, Inc. ("Public Service"); J. Patrick Nevins, Esquire, and James R. Kibler, Jr., Esquire, counsel for Dominion Greenbrier, Inc. ("Greenbrier"); and Joseph W. Lee, III, Esquire, and Sherry H. Bridewell, Esquire, counsel for the Commission Staff. No public witnesses appeared at the hearing. The proofs of publication and notice to the public were accepted as Exhibits A, B, and C. At the conclusion of the proceeding,

the Hearing Examiner invited the parties and Staff to file post-hearing briefs within ten business days of the transcript.

Post-hearing briefs were filed by the Company, Staff, Greenbrier, and Public Service.

On May 31, 2002, the Hearing Examiner issued his report in this matter, wherein he made the following findings and recommendations:

(1) Saltville has satisfied the criteria for issuance of a preliminary CPCN [certificate of public convenience and necessity], pursuant to § 56-265.2 of the Code of Virginia, to test, develop, construct, maintain and own an underground natural gas storage facility in Saltville, Virginia;

(2) The Commission should defer issuing Saltville its final CPCN allowing it to operate the Storage Facility until after the filing of certain test results, engineering studies, operations manuals, and engineering plans and specifications with the Commission, as detailed in this Report;

(3) Since the viability and timely completion of the project may be impacted by Saltville's ability to dispose of brine produced in cavern development, the Commission should monitor Saltville's brine disposal throughout Phase I of the project. Saltville's CPCN should contain a requirement that it file a report with the Commission on or before January 31, 2003, and annually thereafter, identifying the amount of brine actually processed during the preceding calendar year, the brine on hand in the retention ponds at the end of the calendar year, the remaining space available in the retention ponds, a projection of the brine to be produced in

the upcoming calendar year from cavern development, a projection of the amount of brine to be processed during the upcoming calendar year, and the method of processing;

(4) Saltville's CPCN should specifically state that it is limited to Phase I of the Storage Facility project, and that Phase II is excluded from the CPCN;

(5) Saltville's CPCN should contain a sunset provision that if Phase I of the project extends beyond December 31, 2007, Saltville shall request additional authority from the Commission to continue development of the project;

(6) Saltville's CPCN should contain a sunset provision that if Saltville fails to develop or operate the Storage Facility, its CPCN will lapse on December 31, 2007, unless Saltville timely files a petition with the Commission requesting an extension of its CPCN, and demonstrates good cause for its delay;

(7) Saltville should be required to file a copy of its management committee's 'policies' prior to the issuance of a final CPCN to confirm that the committee exercises supervision and control over the operating manager;

(8) Saltville should be required to file a complete list of the permits required to construct, own, and operate the Storage Facility, and identify the entity required by law, statute, or regulation to hold such permit;

(9) Saltville should be entitled to a business risk, or small company, adjustment in determining its cost of equity capital;

(10) Saltville's 14.45% cost of equity capital is reasonable;

(11) Saltville should be permitted to capitalize interest in accordance with the methodology approved by the Commission in Virginia Gas Pipeline Co., Case No. PUE980627, 1999 S.C.C. Ann. Rep. 443;

(12) Saltville should be required to make an Annual Informational Filing after one year of operational data has been accumulated;

(13) Saltville should be required to file a FERC Form 2 within 120 days of the end of the Company's fiscal year;

(14) Saltville's accounting records should comply with the FERC System of Accounts (Conservation of Power and Water Resource, Number 18, Parts 1 to 399, revised as of April 1, 2001);

(15) Saltville should be required to file an application under the Utility Transfers Act to transfer the facilities outlined in this case from VGPC to Saltville;

(16) Saltville's proposed Firm Storage Service and Interruptible Storage Service charges, as modified at the hearing, are reasonable;

(17) Saltville should be afforded an opportunity after it is issued its preliminary CPCN to file amendments to its tariff to address the concerns raised by Public Service and the Staff;

(18) Saltville should be required to provide the cavern test results to the Staff, for an independent review of the results by the Staff's geotechnical expert;

(19) Saltville should be required to comply with the following operations parameters and continued operations monitoring recommendations: (a) in situ

leakage testing and mechanical integrity tests should be performed on the proposed caverns; (b) maximum cavern pressures should not exceed the equivalent of .75 psi per foot of depth from the ground surface to the cavern roof unless the caverns are hydraulically interconnected. If they are interconnected, the maximum operating pressure should not exceed .70 psi per foot depth; (c) minimum cavern pressures should not fall below .30 psi per foot during the first three years of operation and rapid drops of pressure should be avoided. At the end of three years, the minimum cavern pressure may be reduced to .25 psi, if done in a gradual manner, i.e., less than 150 psi/day; (d) periodic ground level surveys should be conducted using the benchmark network; (e) a survey specialist should be engaged to review the existing survey procedure to improve the accuracy and repeatability of the present survey readings; (f) yearly gamma ray and caliper logging of all active wells; (g) periodic sonar surveys should be used to monitor the dimension and shape of the caverns; (h) injection pressures, flow rates, and cumulative gas volumes should be monitored and recorded according to federal EPA requirements; and (i) the collected data should be integrated to develop a model of ground behavior on a yearly basis;

(20) Saltville should be required to comply with the recommendations contained in Department of Environmental Quality's Coordinated Environmental Review;

(21) Saltville should be required to make corrections to the manuals already filed with the Commission to separately identify the owner of the Storage Facility from the operator of the Storage Facility. Additionally, the Commission should require Saltville to file its Operator Qualification Manual;

(22) Saltville should be required to provide the Staff with the comprehensive specifications for all portions of the pipeline facilities at least 30 days prior to the commencement of construction;

(23) Saltville's CPCN should include the natural gas storage service territory and the natural gas pipeline territory requested in its Application, as more particularly described in the Commission's Order for Notice and Hearing; and

(24) The Commission should direct VGPC to submit a request identifying with particularity the service territory it desires to abandon, and the service territory it desires to retain.

The Hearing Examiner recommended that the Commission enter an Order adopting the findings contained in his Report; granting Saltville preliminary approval, pursuant to § 56-265.2 of the Code, to test, develop, construct, maintain, operate, and own a natural gas storage facility and attendant natural gas pipeline facilities in Saltville, Virginia; deferring final approval to Saltville to operate its natural gas Storage Facility until certain filings are made with the Commission; and retaining jurisdiction of this case until further Order of the Commission.

The Hearing Examiner invited the parties to the proceedings to file comments within twenty-one days of the date of his Report.

On June 21, 2002, Saltville and VGPC filed joint comments to the Hearing Examiner's Report. In these comments, the

Company and VGPC indicated that they generally supported the Hearing Examiner's recommendations, but requested that the Commission grant the Company a certificate of public convenience and necessity subject to conditions that must be fulfilled after the certificate is issued. Saltville maintains that it requires the certificate to enter into contracts and to obtain financing. The Company asserted that the issuance of a certificate should not be delayed because of the requirement that reports relative to the development and operation of the facility be filed.

Saltville asserted that the recommended 14.45% return on equity was fair, reasonable, and conservative, and supported the Hearing Examiner's application of a small company investment adjustments as recognizing the risk factors involved in the storage project.

The joint comments further noted that VGPC had requested a reduction in the facility site certificated to VGPC and asserted, contrary to the recommendations of the Hearing Examiner, that VGPC had identified with particularity the portion of the certificated facility site it proposed to abandon. The comments requested the Commission to grant VGPC's requested reduction in the certificated facility site.

On June 21, 2002, the Staff filed its comments on the Hearing Examiner's Report. In its comments, the Staff noted that the Commission should condition Saltville's receipt of a

certificate on a further demonstration of (i) how the Company will obtain and maintain control of the proposed salt cavern facility and associated facilities; (ii) proof that critical regulatory permits from the Department of Environmental Quality and the Environmental Protection Agency have been issued to Saltville; (iii) proof that Saltville will take responsibility for the day-to-day operations and safety of the subject caverns; and (iv) proof that the Company's management policies have been precisely defined and provide for the exercise of control by Saltville over the operations of the project.

The Staff requested that finding paragraph (18) of the May 31, 2002, Hearing Examiner's Report be clarified to change the reference from "the Staff's geotechnical expert" to Staff or to a technical expert retained by Staff. Staff contended that if the Commission grants Saltville a certificate, the filings required by finding paragraph (19) of the Hearing Examiner's Report be made directly with the Staff on a quarterly basis in an electronic format.

Staff recommended that the Commission reject the Hearing Examiner's findings as to Saltville's cost of equity and overall cost of capital, and the Hearing Examiner's acceptance of a small firm adjustment to Saltville's equity. Staff supported a return on equity in the range of 12% - 13%, with an overall cost of capital within a range of 9.40% - 9.75%.

Staff further recommended that the Commission grant a certificate to Saltville only after the Company receives the requisite regulatory approvals necessary under Chapters 4 and 5 of Title 56, and upon receipt of further certificate amendments by the Company and VGPC to clarify who would actually be furnishing the utility service at issue in the application.

The Utility Facilities Act governs Saltville's application to: (1) develop, construct, own, operate, and maintain an underground natural gas Storage Facility, along with related facilities, at Saltville, Virginia; (2) construct, develop, own, operate, and maintain an attendant pipeline facility approximately seven miles in length originating at the Storage Facility and terminating in Chilhowie, Virginia, along with related facilities; and (3) provide both firm and interruptible natural gas storage services to customers consistent with the Company's proposed gas tariff. In accordance with this statute, the following issues, among others, have been considered by the Hearing Examiner and, in turn, the Commission, in this case:

(1) Whether Saltville has demonstrated that, upon granting of its CPCN, its management and control of the facility is adequate?

(2) Whether Saltville has satisfied the requisite geotechnical and engineering tests and specifications for the construction and maintenance of the facility?

(3) What is the appropriate determination of the cost of equity capital recommendation for the Saltville operation?

We will accept recommendations (1), (3), (4), (5), (6), (11), (12), (13), (14), (15), (16), (17), (18), (19), (20), (21), (22), and (23) set out in the May 31, 2002, Hearing Examiner's Report as modified below. We will discuss the issues raised regarding management and control of the facility, the geotechnical tests and specifications for construction, maintenance and operation of the facility, as well as the appropriate cost of equity and cost of capital for Saltville's facility addressed in the comments of Staff and of the Company.

Management and Control of the Facility

With regard to the management and control issues raised by Saltville's project, the questions of adequate management and control and the determination of which entity should rightly hold the CPCN for the Storage Facility developed is based upon the unusual organizational and physical location of the Storage Facility. VGPC currently operates a salt cavern natural gas storage facility on a site that overlaps the area for which Saltville seeks a CPCN. VGPC does not have the right to develop unilaterally the remaining salt caverns in the site certificated to VGPC for the development of natural gas storage caverns. According to the application, in 1996, VGPC entered into a transfer agreement with Tennessee Energy Resources Company that

permitted VGPC to develop the caverns it now operates, Caverns 16 and 20. That agreement provided that subsequent caverns would be developed in a joint venture between the parties. Duke Energy was the successor in interest to the agreement as a result of its purchase of Tennessee Energy Resources Company's parent. The formation of a joint venture resulted from the parties in interest choosing a limited liability company with Duke Storage and NUI Storage as the two members of the LLC.

In addition, Saltville entered into an operating agreement with VGPC to operate the Storage Facility. Under the agreement, VGPC would manage the facility on a day-to-day basis utilizing its expertise in the operations of a salt cavern natural gas storage facility. The Commission approved this operating agreement on March 12, 2002, subject to the grant of a CPCN to Saltville.¹ Saltville's management committee consists of an equal number of representatives from Duke Storage and NUI Storage, and it is anticipated that this committee will develop the policies under which VGPC must conduct day-to-day operations at the facility.

The Utility Facilities Act defines a "public utility" as any company that owns or operates a natural gas storage facility

¹ See, Application of Virginia Gas Pipeline Company and Saltville Gas Storage Company, L.L.C., For approval of a transaction between affiliates, Case No. PUA-2001-00076, D.C.C. No. 020320084 (March 12, 2002, Order Granting Approval).

in the Commonwealth of Virginia and requires a public utility to obtain a CPCN from the Commission before furnishing such service. The extent of a public utility's exercise of supervision and control over its contract operator or subcontractors determines the necessity of whether the public utility should be the only entity required to obtain a CPCN. In this case, we will grant Saltville a certificate of public convenience and necessity, conditioned on Saltville obtaining, maintaining, and exercising management and control over the operations of this facility. Saltville shall obtain, in its own name, the necessary permits and certificates from the appropriate local, state, and federal agencies. We remind the Company that this is an important condition, and failure to comply with this or any other condition may result in revocation of the certificate granted by this Order.

The geographic configuration of the Storage Facility site consists of the enlarged LLC area which envelopes the smaller facility site previously certificated to VGPC. In the captioned application,² we have been advised that the Storage Facility site will involve a voluntary reduction by VGPC of its certificated site. Consequently VGPC will be directed to file, within thirty (30) days of the completion of Staff's or Staff's geotechnical

² VGPC intends to file an application under Chapter 5 with the Commission for the transfer of equipment and facilities identified in that application to Saltville.

expert's review of the geotechnical and engineering test results provided by Saltville, in this docket: (a) the necessary documents relinquishing its right to own, operate, and maintain that portion of the storage site that Saltville will be authorized to operate under Saltville's CPCN; (b) an application, under the appropriate statutes, for the transfer of its real property rights to Saltville; and (c) a document identifying the specific geographic area and adjacent caverns that it wishes to continue operating, exclusive of the LLC's Storage Facility site. When it requests reduction of its certificated facility site, VGPC shall notify the Commission of any effect on VGPC's current rates and tariffs resulting from a reduction of VGPC's certificated site. Finally, in its next AIF or rate proceeding, whichever is filed first, VGPC must reflect the effect on its cost of service of any transfers or sharing of its associated equipment, facilities, employees, or any other impacts associated with any reduction in the site certificated to it.

We will attach certain conditions to the CPCN issued herein, including the following: First, no later than thirty (30) days prior to commencement of construction of the storage and pipeline facilities, the Company must provide the specifications and procedures to be used during construction of the facilities for the storage project to the Staff. No later

than one hundred twenty (120) days prior to the commencement of construction of the facilities, the Company must provide to Staff or to Staff's geotechnical expert the necessary geotechnical and engineering testing of the caverns that indicate that the project is viable, as described at pp. 32-33 of the May 31, 2002, Hearing Examiner's Report. Staff or Staff's geotechnical expert will complete its review of said data within sixty (60) days. Staff will promptly communicate with the Company concerning any necessary additional information it requires to complete its review and shall advise the Company that no additional information is necessary and that the Staff has completed its review. After the Company provides this initial report, quarterly reports concerning the continued viability and progress of the construction of the Storage Facility site should be provided in an electronic format to the extent practicable.³ Further, Saltville, as a condition of its certificate, must obtain, in its own name, the necessary permits and certification from the appropriate local, state, and federal agencies. Saltville shall be required to comply with certain operational and monitoring parameters. Saltville also must comply with the recommendations contained in the Department of Environmental Quality's Coordinated Environmental Review.

³ If the project is not technically viable, it is our expectation that the Company will so advise us.

Finally, the Company's certificate shall contain the condition that it will be limited to Phase I and will lapse on December 31, 2007, if Saltville fails to develop, construct, and operate the Storage Facility unless, prior to that date, the sunset period is extended for good cause shown. We emphasize, however, that we have no reason to believe that this project will be delayed.

Geotechnical and Engineering Issues

With regard to geotechnical and engineering issues raised by Saltville's project, the structural integrity and viability of the Storage Facility site must be assured as a condition of the CPCN conferred upon the LLC. We agree with the Hearing Examiner's Report that Saltville should be required to provide the cavern test results to the Staff for an independent review of the results by the Staff or the Staff's geotechnical expert; however, we modify the Examiner's finding to require that such test results be made directly with the Staff on a quarterly basis in an electronic format, if practicable.

Cost of Equity and Cost of Capital for Saltville

Staff and the Company continue to disagree on the appropriate cost of equity estimate for Saltville. It is difficult to analyze the cost of equity for the Saltville facility because there is no market data readily available for companies sufficiently comparable to Saltville and its

operations to examine, and it is difficult to evaluate the appropriate risk for this particular Company. The Staff's recommended cost of equity, in our view, is too low; however, the Company's estimated cost of equity is excessive. On balance, we believe the evidence supports a cost of equity within the range of 12.5%-13.5%, with the midpoint of the range (13%) being used to calculate revenues for the Company. Employing the capital structure ratios and debt cost rates accepted by Staff and the Company, Saltville's overall cost of capital would be within a range of 9.575% to 9.925%, as shown below:

SALTVILLE GAS STORAGE COMPANY, L.L.C.
Hypothetical Ratemaking
Capital Structure and Cost of Capital

<u>Component</u>	<u>Weight</u>	<u>Cost Rate</u>			<u>Weighted Cost</u>		
Long-Term Debt	65%	8.00			5.200		
Common Equity	<u>35%</u>	<u>12.50</u>	<u>13.00</u>	<u>13.50</u>	<u>4.375</u>	<u>4.550</u>	<u>4.725</u>
Total Capitalization	100%				9.575	9.750	9.925%

The Company's projected cost of service employed a 15% return on equity and indicates that Saltville will not earn even the return on equity found reasonable herein within its first few years of operation. Therefore, there is no need to adjust the Company's rates proposed in this proceeding. We will,

however, require the Staff to monitor the earnings and return on equity for the Company as part of the LLC's succeeding AIF or any rate proceeding. As actual operating data becomes available, the Company, Staff, or any interested party may subsequently move for an adjustment of the Company's rates if Saltville is found to be earning a return in excess of, or less than, that found reasonable herein.

Accordingly, IT IS ORDERED THAT:

(1) The recommendations of the May 31, 2002, Hearing Examiner's Report, as modified herein, are hereby adopted.

(2) Pursuant to the provisions of the Utility Facilities Act, upon filing appropriate Virginia Department of Transportation county road maps with the Division of Energy Regulation, and subject to the conditions set forth below in Ordering Paragraph (3), the Company shall be granted Certificate of Public Convenience and Necessity No. GS-3 to construct, own, operate, and maintain an underground natural gas storage facility in Smyth and Washington Counties, Virginia, together with an associated 24-inch pipeline facility approximately seven miles in length, employing a permanent right-of-way of 50 feet in width, originating at the Storage Facility and terminating in Chilhowie, Virginia. The Storage Facility site certificated herein is described as follows:

Beginning at an iron pin in the Right-of-way of Palmer Avenue, a common corner with Salt Theatre Corporation, thence with the new property line of Virginia Gas Company (VGC) and Palmer Avenue ten calls: S20°13'19"W 86.28'; S0°25'09"W 39.57'; S3°32'48"E 180.87'; S2°21'34"W 79.67'; S10°54'32"W 110.21'; S18°27'47"W 53.83'; S24°17'41"W 114.63'; S24°53'49"W 127.93'; S28°29'27"W 112.35'; S30°48'03"W 233.87' to an iron pin in the right-of-way of Palmer Avenue, common corner to William Hayden, thence leaving said right-of-way and with the line of Hayden N53°54'01"W 601.46' to 24" Double Ash; thence with Hayden S55°09'27"W 178.96' to an iron pin; thence (S18°41'27"W 788.68') to a point in the new property line of VGC intersecting the old SCC certification line of VGC; thence with the old certification line S50°05'15"E 160.43' to a point of intersection of aforesaid lines; thence with the new property line of VGC S61°23'37"E 371.51' to an iron pin, common corner to David Doane; thence with Doane S14°56'49"W 80.34' to a point in the new property line of VGC intersecting the old SCC certification line of VGC; thence with the old certification line S50°05'15"E 39.10' to a point; thence N58°31'18"E 1716.29' to a point, crossing Palmer Avenue at +250'; thence with the old certification line three calls: S21°21'38"E 944.42'; S47°37'31"W 1515.13'; and S36°35'37"W 644.14', the last call crossing Palmer Avenue at +235', to a point in the new property line of VGC and Dorothy Debord, said point bearing S58°10'02"E 5.55' from a fence post; thence with Debord four calls: S58°10'02"E 44.45' to a point; thence S59°04'38"E 250.09' to a fence post; thence N26°52'42"E 219.43' to an iron pin; thence S63°44'18"E 338.87' to a point, common corner to VGC, Debord and Betty Hicks; thence with Hicks S65°13'34"E 100.00' to a point common to VGC and Hicks; thence with Hicks N25°38'42"E 145.00' to a point in the right-of-way of Palmer Avenue; thence with

said right-of-way S71°05'33"E 95.44' to a point: thence with the line of the J.K. Hicks Estate two calls: S61°36'55"E 169.65'; S54°13'55"E 454.31' to an iron pin in the right-of-way of Palmer Avenue; thence with said right-of-way N64°08'48"E 5.17'; thence S30°34'10"E 77.21' to an iron pin, common corner to Billy Boardwine; thence with Boardwine S60°16'07"W 141.97' to a post; thence S30°13'35"E 317.67' to a post, common corner to Jimmy Ferguson; thence with Ferguson S22°29'01"W 118.32' to a post; thence with Ferguson and Lula Clapp S5°03'19"W 299.46' to an iron pin, common corner to N/F the Hayden Property; thence with said property S58°38'16"W 149.88' to a post; thence S34°33'44"E 524.43' to an iron pin in the right-of-way of VA State Route 610, Old Quarry Road; thence with said right-of-way two calls: S58°42'08"W 324.29'; S57°32'01"W 192.86' to a post, common corner to Bridgette Smith; thence N29°19'16"W 1774.59' to an iron pin, common corner to Patricia Lowery; thence N72°37'22"W 602.91' to a post, common corner to Gerald Allison; thence with Allison N35°41'02"W 297.45' to a point in the new property line of VGC intersecting the old SCC certification line of VGC; thence with old certification line S74°56'48"W 168.01' to a point of intersection of aforesaid lines; thence with Allison S14°36'09"E 232.31' to a point; thence S68°34'33"W 507.35' to a post; thence S33°19'28"W 330.24' to a 20" Cherry; thence S48°58'59"W 290.98' to a post; thence N23°02'38"W 615.85' to a point in the new property line of VGC intersecting the old SCC certification line of VGC; thence with the old certification line S74°56'48"W 663.92' to a point of intersection of aforesaid lines; thence with the new property line of VGC and Allison S57°52'16"W 953.27' to an iron pin, common corner to James Perry; thence with Perry seven calls: N1°22'42"W 193.29' to an 18" Walnut; S53°36'55"W 139.19'; S49°14'04"W 192.87'; S53°02'42"W

259.97'; S39°09'54"W 66.33'; S48°48'17"W
 202.36'; S44°12'07"W 52.00' to a post,
 common corner to Harold Puckett; thence
 N31°38'06"W 433.76' to a post; thence
 S62°28'05"W 468.72' to an iron pin, common
 corner to Daisy Gates; thence N29°19'39"W
 411.58' to a point within the right-of-way
 of American Electric Power, common corner to
 Don Roberts; thence with Roberts S62°04'12"W
 447.25' to the corner of Mike Jackson;
 thence with Jackson four calls: S65°57'57"W
 176.00'; S25°36'43"W 72.12'; S60°01'53"W
 13.23'; S75°22'33"W 38.88' to the corner of
 the Sylvester McElraft Estate; thence with
 said estate N61°08'26"W 18.99' to the corner
 of Ed Talbert; thence with Talbert fourteen
 calls: N10°52'39"E 142.26' to an iron pin;
 N1°27'45"W 247.20'; N37°40'05"E 463.33' to a
 post; N41°12'57"E 1062.09' to a post;
 N1°06'50"E 306.06' to an 18" Cherry;
 N87°08'28"W 475.18' to a post; S15°36'32"W
 903.00' S46°51'32"W 140.00'; S48°51'32"W
 240.00' S41°51'32"W 164.00'; S46°51'32"W
 35.00'; S41°08'28"E 15.00'; S34°51'32"W
 291.00' to an 8" Cherry; N88°50'07"W 205.00'
 to a point in the right-of-way of U.S.
 Highway 91; thence with said right-of-way
 five calls: curve to the left-
 delta=11°58'11", A=239.21', R=1145.00',
 B=N51°40'29"W and distance of 238.77';
 N57°39'23"W 174.76'; a curve to the right-
 delta=34°46'18", A=262.62', R=432.74',
 B=S40°16'21"E and distance of 258.61';
 N22°53'21"W 271.46'; a curve to the left-
 delta=19°42'26", A=388.83', R=1130.47',
 B=N32°44'30"W and distance of 386.92' to an
 iron pin; common corner to the Town of
 Saltville Witt Spring Property; thence
 N48°28'18"E 121.74' to an iron pin; thence
 N49°05'42"W 87.00' to an iron pin; thence
 with the Saltville Corporate Line
 N65°49'33"E 1445.62' to an iron pin; thence
 with said line N35°17'25"W 377.34' to a
 point in the corporation line, a common
 corner to Saltville's Buena Vista Cemetery
 Reservation; thence with the Reservation
 Line six calls: S76°09'16"E 90.51' to an

iron pin; N7°01'28"E 241.39'; S56°07'13"W 50.06'; S83°02'43"W 50.64'; S65°31'30"W 85.19'; S65°31'30"W 44.22' to a point in the Saltville Corporation Line; thence with said line N35°17'25"W 1351.78' to an iron pin, being the rear line of the "Smokey Row" Properties; thence along the Southeastern edges of said properties fifteen calls: N50°00'31"E 548.50'; S35°07'00"E 218.92'; N50°00'31"E 350.73'; S35°07'00"E 135.65'; N56°04'39"E 157.15'; N51°09'32"E 283.00'; S40°58'14"E 150.00'; N54°22'10"E 153.03'; N37°34'55"W 6.16'; N58°21'; 27"E 59.53'; N37°34'55"W 156.16'; N52°25'05"E 70.54'; S37°30'36"E 22.44'; N54°41'38"E 610.10'; N29°41'13"W 162.13' to an iron pin, common corner to the Town of Saltville; thence with the new property line of VGC and Town of Saltville twelve calls; N82°26'35"E 1205.23' to a post; N64°42'19"E 175.14'; N65°31'25"E 249.12' to an iron pin; S29°47'29"E 491.73' to an iron pin; S71°34'32"W 835.24' to an iron pin; S2°05'56"W 501.65' to an iron pin; S61°06'40"E 741.56' to an iron pin; N46°00'50"E 743.33' to an iron pin; N41°14'43"W 284.02' to an iron pin; N5°31'39"E 1049.55' to an iron pin; N80°00'07"E 514.57" to an iron pin; S67°02'15"E 2020.14' to an iron pin, common corner to Salt Theatre Corporation; thence with Salt Theatre Corporation Line (L1) to the point of BEGINNING, and containing 639.61 acres, more or less.

The route for Saltville's pipeline corridor for which a certificate is issued is as follows:

BEGINNING at a point marking a corner to the area encompassing the Virginia Gas Pipeline Company storage facility; THENCE with the southerly line of same North 36 degrees 35 minutes 57 seconds East for a distance of 503.1 feet to a point; THENCE leaving said southerly line of the storage facility South 47 degrees 07 minutes 52 seconds East for a distance of 820.28 feet

to a point; THENCE South 26 degrees 27 minutes 22 seconds East for a distance of 1846.84 feet to a point; THENCE South 02 degrees 03 minutes 24 seconds East for a distance of 1092.01 feet to a point; THENCE South 52 degrees 47 minutes 29 seconds West for a distance of 1104.05 feet to a point; THENCE South 09 degrees 46 minutes 34 seconds East for a distance of 3343.20 feet to a point; THENCE South 81 degrees 51 minutes 00 seconds East for a distance of 3555.74 feet to a point; THENCE South 56 degrees 56 minutes 43 seconds East for a distance of 2504.88 feet to a point; THENCE South 65 degrees 33 minutes 40 seconds East for a distance of 3675.98 feet to a point; THENCE South 39 degrees 57 minutes 47 seconds East for a distance of 3593.73 feet to a point; THENCE South 32 degrees 23 minutes 00 seconds East for a distance of 910.41 feet to a point; THENCE South 26 degrees 27 minutes 27 seconds East for a distance of 1569.93 feet to a point; THENCE South 66 degrees 32 minutes 58 seconds East for a distance of 3620.55 feet to a point; THENCE South 70 degrees 31 minutes 28 seconds East for a distance of 2211.16 feet to a point; THENCE South 19 degrees 28 minutes 32 seconds West for a distance of 1000.00 feet to a point; THENCE North 70 degrees 31 minutes 28 seconds West for a distance of 2245.86 feet to a point; THENCE North 66 degrees 32 minutes 58 seconds West for a distance of 4020.13 feet to a point; THENCE North 26 degrees 27 minutes 27 seconds West for a distance of 1883.05 feet to a point; THENCE North 32 degrees 23 minutes 00 seconds West for a distance of 792.41 feet to a point; THENCE North 39 degrees 57 minutes 47 seconds West for a distance of 3300.31 feet to a point; THENCE North 65 degrees 33 minutes 40 seconds West for a distance of 3524.13 feet to a point; THENCE North 56 degrees 56 minutes 43 seconds West for a distance of 2359.39 feet to a point; THENCE North 81 degrees 51 minutes 00 seconds West for a distance of

2445.33 feet to a point; THENCE North 81 degrees 51 minutes 00 seconds West for a distance of 1617.12 feet to a point; THENCE North 09 degrees 46 minutes 34 seconds West for a distance of 4678.35 feet to a point; THENCE North 52 degrees 47 minutes 29 seconds East for a distance of 1192.79 feet to a point; THENCE North 02 degrees 03 minutes 24 seconds West for a distance of 356.92 feet to a point; THENCE North 26 degrees 27 minutes 22 seconds West for a distance of 1448.23 feet to a point; THENCE North 47 degrees 07 minutes 52 seconds West for a distance of 896.32 feet to a point on the southerly line of the area encompassing the storage facility; THENCE with the line of same North 74 degrees 56 minutes 40 seconds East for a distance of 590.09 feet to the point of BEGINNING.

Together with and subject to covenants, easements, and restrictions of record. Said property contains 693.58 acres more or less.

(3) The Certificate of Public Convenience and Necessity granted herein shall be expressly subject to the following conditions: (i) Saltville shall obtain, in its own name, the necessary permits and certifications from the appropriate local, state, and federal agencies, and shall exercise supervisory control and ownership over the operation of the Storage Facility; (ii) Saltville shall provide to the Staff, no later than thirty (30) days prior to commencement of construction of the storage and pipeline facilities, the specifications and procedures to be used during construction of the Storage Facility, pipeline, and other associated facilities; (iii) Saltville shall provide, no later than 120 days prior to

the commencement of construction of the Storage Facility and associated facilities, to Staff or to Staff's geotechnical expert, the necessary geotechnical and engineering testing of the caverns that indicate that the project is viable, as described at pp. 32-33 of the May 31, 2002, Hearing Examiner's Report. Staff or Staff's geotechnical expert will complete its review of said data within sixty (60) days. Staff will promptly communicate with the Company concerning any necessary additional information it requires to complete Staff's review and shall advise the Company that no additional information is necessary and that the Staff has completed its review.⁴ After the Company provides this initial report, quarterly reports concerning the continued viability and progress of the construction of the Storage Facility site shall be provided in an electronic format, to the extent practicable; (iv) the Company's CPCN shall be limited to Phase I of the project as described in the Application. Certificate No GS-3 shall expire if Phase I of the underground gas storage facility has not been constructed and operation commenced by December 31, 2007, unless such date is extended by the Commission prior thereto for good cause; (v) Saltville shall be required to comply with the following operational parameters and continued operations monitoring

⁴ We anticipate that once the Staff communicates that it has completed its review, the Company may proceed.

recommendations as a condition of its certificate: (a) *in situ* leakage testing and mechanical integrity tests should be performed on the proposed caverns; (b) maximum cavern pressures should not exceed the equivalent of .75 psi per foot of depth from the ground surface to the cavern roof unless the caverns are hydraulically interconnected. If they are interconnected, the maximum operating pressure should not exceed .70 psi per foot depth; (c) minimum cavern pressures should not fall below .30 psi per foot during the first three years of operation, and rapid drops of pressure should be avoided. At the end of three years, the minimum cavern pressure may be reduced to .25 psi if done in a gradual manner; i.e., less than 150 psi/day; (d) periodic, on an annual basis, ground level surveys should be conducted using the benchmark network, and the results of such surveys shall be filed by the Company with the Staff; (e) a survey specialist should be engaged to review the existing survey procedures to improve the accuracy and repeatability of the present survey readings; (f) yearly gamma ray and caliper logging of all active wells; (g) periodic, on an annual basis, sonar surveys should be used to monitor the dimension and shape of the caverns, and the results of such surveys shall be filed with the Company by the Staff; (h) injection pressures, flow rates, and cumulative gas volumes should be monitored and recorded according to federal EPA requirements; and (i) the

collected data should be should be integrated to develop a model of ground behavior on a yearly basis. Saltville shall file these data electronically (to the extent practicable) with the Division of Energy Regulation, on a quarterly basis, except as otherwise provided in this Order; (vi) Saltville must comply with the recommendations contained in the Department of Environmental Quality's Coordinated Environmental Review; and (vii) VGPC shall file with the Commission, in this docket, within thirty (30) days of the completion of Staff's or Staff's geotechnical expert's review of the geotechnical and engineering test results provided by Saltville, as detailed in (iii), the following: (a) the necessary documents relinquishing its right to construct, develop, operate, and maintain that portion of the storage site that is granted to Saltville under the CPCN granted herein, (b) an application, under the appropriate statutes, for the transfer of its real property rights to Saltville, and (c) a document identifying the specific geographic area and adjacent caverns that VGPC will continue to serve, exclusive of Saltville's Storage Facility site.

(4) Saltville shall be required to make an Annual Informational Filing after one year of operational data has been accumulated in the event that it does not seek rate relief.⁵

⁵ While we will permit the capitalization of interest as discussed at page 17 of the May 31, 2002, Hearing Examiner's Report, the inclusion of capitalized interest in the Company's rate base will be dependent on the results of the

(5) Saltville shall file a FERC Form 2 within 120 days of the end of the Company's fiscal year.

(6) Saltville shall correct the manuals already filed with the Commission to identify each owner and operator of the Storage Facility. Additionally, Saltville shall file its Operator Qualification Manual within thirty (30) days of the entry of this Order with the Staff.

(7) Saltville shall file revised Firm Storage Service and Interruptible Storage Service charges reflecting the modifications agreed to by the Company at the public hearing held herein, with the Commission's Division of Energy Regulation.

(8) Saltville may file with the Commission amendments to its tariffs as contemplated in Recommendation (17) of the May 31, 2002, Hearing Examiner's Report.

(9) VGPC shall reflect, in its next AIF or rate application in the event VGPC determines to file a rate case rather than AIF, the impact on its cost of service of any transfer or sharing of its associated equipment, facilities, employees, or any other cost of service impact associated with a reduction in the site certificated to VGPC.

Company's annual earnings test. Interest deemed to have been recovered shall not be capitalized for future recovery. Indeed, as explained at page 17 of the Hearing Examiner's Report, there may be a time when the capitalization of interest will no longer be justified.

(10) This matter shall be continued to accommodate the receipt of the documents required to be filed herein.